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Mastering Candlestick Charts 1

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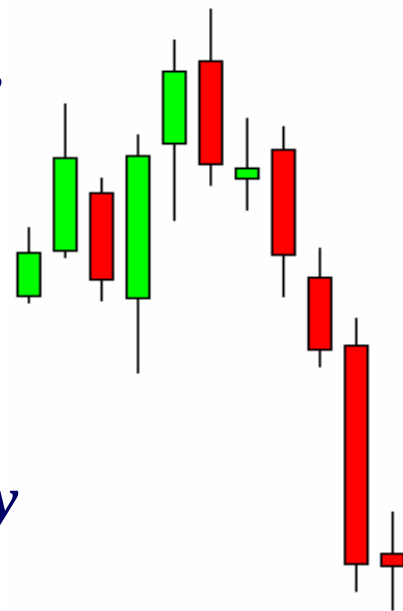
General Understanding and Use

Candles in Action

Candlestick Analysis

Cutting Through the Candlestick Hype

- *The signals on a bar chart are the same as a candle chart.*
- *Those signals will be seen at the same time and are no more reliable than those of a bar chart.*
- *The use of indicators will not increase the reliability of candles.*
- *There are no advanced candlestick patterns, but there is a deeper understanding of price movements and that is the focus of The Pristine Method®.*
- *So, why use candle charts at all?*



Candlestick Analysis

Why Use Candlesticks?

- Provides a visual picture of what is occurring.
- Gives visual insights into others' thoughts and expectations.
- Gives visual confirmation signals of support and resistance.
- Can visually align your thoughts with the market.
- Can visually point to potential reversal points.
- Can a bar chart do this? Yes, but you can do it faster with candles!



Candlestick Analysis

Candle Language Produces Thoughts



- *Proper trading is said to be proper thinking, but how do we know what to think?*
- *Pattern recognition is a recurring arrangement of price bars that suggests the future movement of prices, which guides our thoughts.*
- *These patterns communicate how traders have acted and what their beliefs (**expectations**) are in that time frame, at the moment.*
- *Candles provide a picture of those expectations on an ongoing basis.*
- *Those pictures speak to us in “**Candle Language**” and are the basis for our continuous thoughts and trading decisions.*

Candlestick Analysis

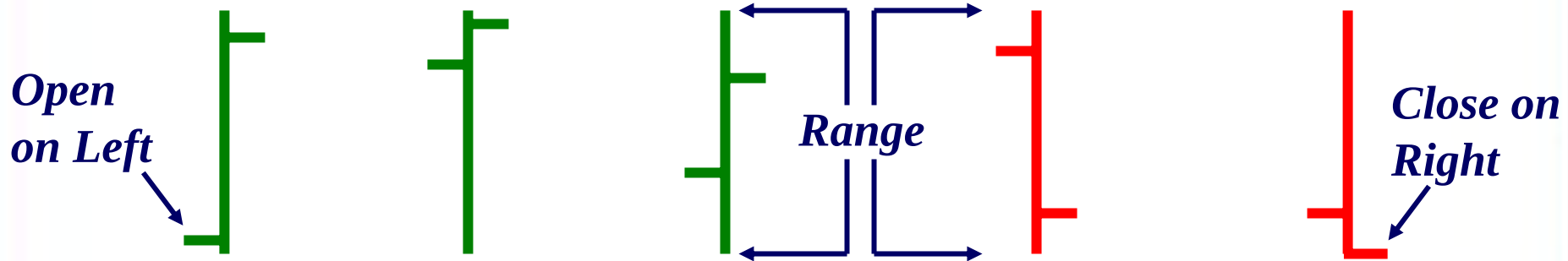
Miscellaneous Thoughts on Candlesticks

- *Attempting to define the accuracy of candle names or patterns without considering the trend, support and resistance is useless.*
- *There are a least 50 different candle patterns, bullish and bearish. Some memorize them, but you will see this is completely unnecessary.*
- *While candles are very good at visually showing reversal signals, the signals that do Not work are often the most powerful!*
- *All that is needed is a chart of price bars -- all else is secondary.*
- *While other analysis tools may add additional information, they can only follow existing price action.*

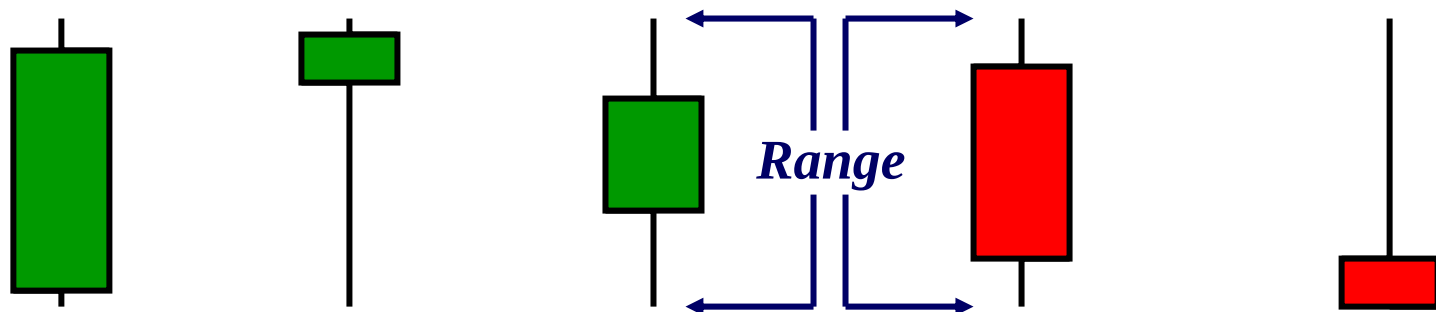
Candlestick Basics

Candlestick Analysis

- Candlesticks show the same **O, H, L, C** information as Western bars, but the battle between buyers and sellers is “visually” clearer.



The Range of a bar is the difference between the high and the low

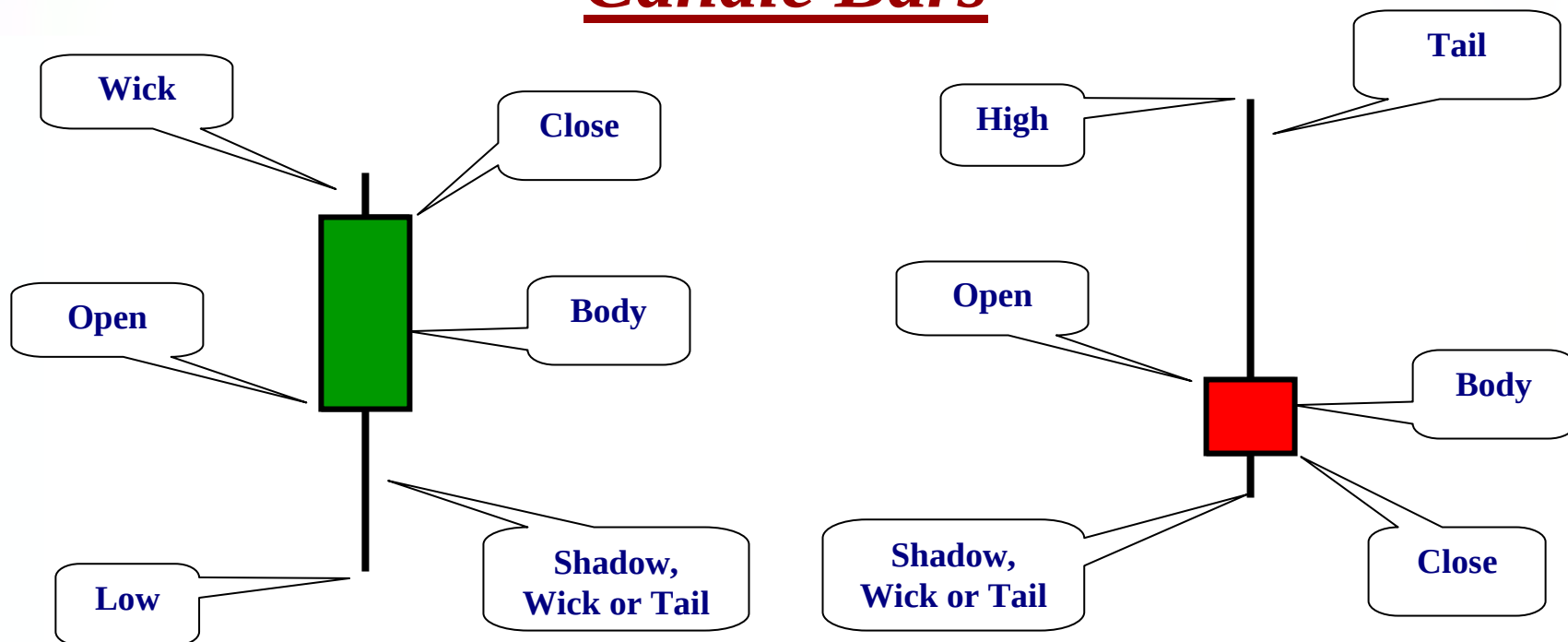


*Closes above the
Open = **Green***

*Closes below the
Open = **Red***

Candlestick Analysis

Candle Bars



- *The candle body is the difference between the open and the closing prices.*
- *The part on either side of the body is called a Shadow, Wick or Tail.*

Candlestick Analysis

● *Let's first review most individual candles and their names to give you a background..*

● *Remembering names is unnecessary because that will not help you use candles or understand their meaning!*

When we are done with this DVD, not only will you understand what candles are saying, you will also:

● *Have a objective method of knowing when to enter*

● *Know where to place a stop*

● *Know how to monitor a position once in it*

Candlestick Analysis

The Individual Candles

DOJI – A bar with the open and close at or very near the same price +

Gravestone DOJI – A Doji with the open and close at the bar's low ⊥

Dragon Fly DOJI – A Doji with the open and close at the bar's high T

Long Legged DOJI – A Doji with long upper and lower shadows +

Candlestick Analysis

The Individual Candles

Spinning Top – A bar with a small body and small range, after a multi-bar move.



High Wave – A bar with a small body and wider range, after a multi-bar move.



Hammer – A bar with a small body (red or green), long lower tail, and small to no upper tail, after a **multi-bar down move**.



Candlestick Analysis

The Individual Candles

Inverted Hammer – A bar with a small body (red or green), long upper tail, and small to no lower tail, after a **multi-bar down move**.



Hangman – A bar with a small body (red or green), long lower tail, and small to no upper tail, after a **multi-bar up move**.



Shooting Star – A bar with a small body (red or green), long upper tail, and small to no lower tail, after a **multi-bar up move**.



Candlestick Analysis

Let's begin to simplify all of these prior candles.

Single Candle Questions:

- *Were the prior candles moving up or down?*
- *Was there a tail on the top, bottom or both sides of the body?*
- *Was the body relatively small in relation to the candle range?*
- *Interpretation – Momentum slowed down and there may have been an increase in buying or selling.*

Candlestick Analysis

As you can see, an individual candle may or may not result in a reversal.

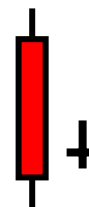
More information is needed for them to be meaningful.



Candlestick Analysis

Two-Bar Combinations

Harami Cross Bullish – A DOJI inside a large red body.



Harami Cross Bearish – A DOJI inside a large green body.



Harami Bullish – A small green bar inside a large red body.



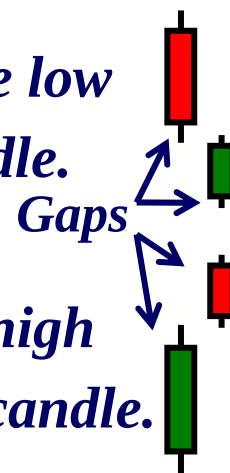
Harami Bearish – A small red bar inside a large green body.



Candlestick Analysis

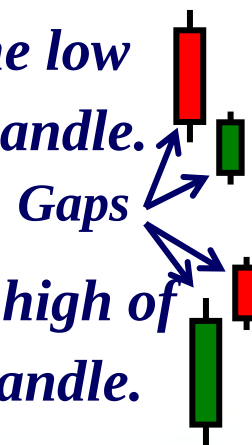
Two-Bar Combinations Con't

On Neck Line Bullish – A green candle that opens below the low of a prior red candle (gap) and closes at the low of the prior candle.



On Neck Line Bearish – A red candle that opens above the high of a prior green candle (gap) and closes at the high of the prior candle.

In Neck Line Bullish – A green candle that opens below the low of a prior red candle (gap) and closes at the close of the prior candle.



In Neck Line Bearish – A red candle that opens above the high of a prior green candle (gap) and closes at the close of the prior candle.

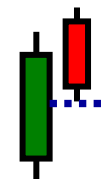
Candlestick Analysis

Two-Bar Combinations Con't

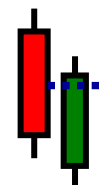
Thrust Line Bullish – A green candle that opens below the low of a prior red candle and closes inside the prior red candle's body, but below the midpoint.



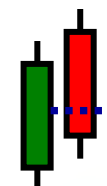
Thrust Line Bearish – A red candle that opens above the high of a prior green candle and closes inside the prior green candle's body, but above the midpoint.



Piercing Line Bullish – A green bar that opens below the low of a red bar and closes above the midpoint of the prior bar.



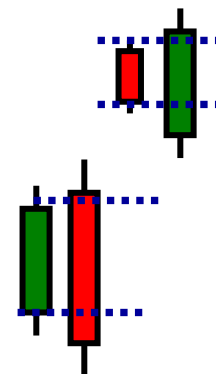
Dark Cloud Cover Bearish – A red bar that opens above the high of a green bar and closes below the midpoint of the prior bar.



Candlestick Analysis

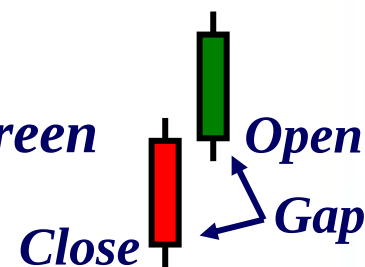
Two-Bar Combinations Con't

Engulfing Bullish – A larger green body engulfing a smaller red body.

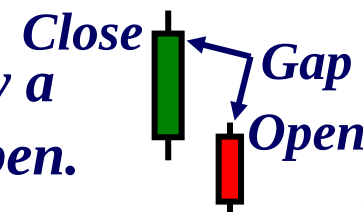


Engulfing Bearish – A larger red body engulfing a smaller green body.

Separating Lines Bullish – A red candle followed by a green candle that opens (gaps) at or near the prior candle's open.



Separating Lines Bearish – A green candle followed by a red candle that opens (gaps) at or near the prior candle's open.



Candlestick Analysis

Let's begin to simplify all of these prior candles.

Two Candle Combination Questions:

- *Were the prior candles moving up or down?*
- *If a gap occurred, to what degree did it fail to follow through?*
- *How far did the current bar retrace and close into the prior?*
- *Was there a complete reversal of the prior candle?*
- *Interpretation – Momentum has shifted to varying degrees.*

Candlestick Analysis

Two-Bar Combinations

Two-bar combinations are an improvement over individual candles at signaling reversals.



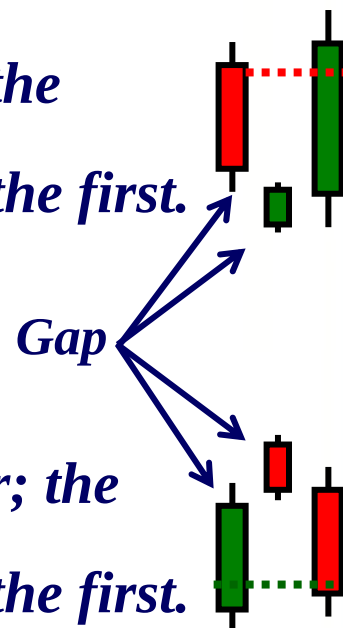
Now let's look at three-bar combinations

Candlestick Analysis

Three-Bar Combinations

Morning Star Bullish – The first bar is a long red bar; the second gaps below the prior body; the third closes well into the first.

Evening Star Bearish – The first bar is a long green bar; the second gaps above the prior body; the third closes well into the first.



Morning/Evening DOJI Star – Replace Star with DOJI

Candlestick Analysis

Let's begin to simplify all of these prior candles.

Three-Bar Combination Questions:

- Were the prior candles moving up or down?*
- To what degree did momentum slow and begin to shift?*
- To what degree did the next candle penetrate and close into the prior candles?*
- Interpretation – Momentum slowed down, reversed and there has been an increase in buying or selling.*

Candlestick Analysis



Candlestick Analysis



● *Some would say: Candle messages occurring within a consolidation are meaningless.*

● *In time, you will see how they offer very valuable information.*

Candlestick Analysis



Candlestick Analysis

- *The basics offered a good starting point for the interpretation of candlesticks.*
- *In the next sections, we are going to look at candlestick analysis from the Pristine point of view.*
- *A deeper understanding of candlestick analysis will not only demystify them, but will also simplify their use.*

Beyond the Basics of Candlesticks

Candlestick Analysis

Candlestick analysis is the study of momentum increases and decreases, which may lead to a price reversal.



Candlestick Analysis

Common Candle Terms:

Engulfing Bar, Piercing Bar, Dark Cloud Cover, Harami, Thrusting Line.

Doji, Star, Hammer, Hangman

Pristine Candle Terms:

COG – These have different levels of penetration into the prior bar's range

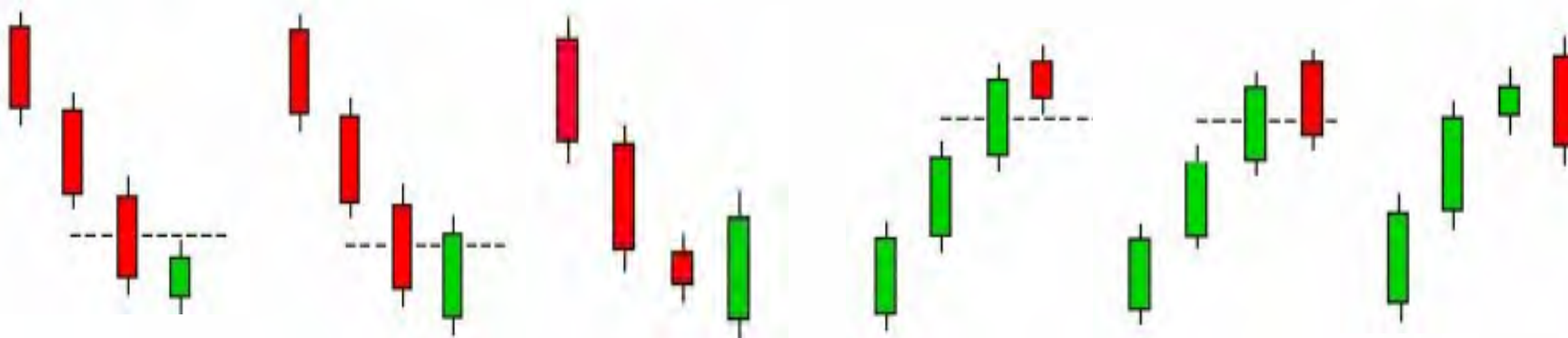
NRB, NB, BT, TT – Different levels of slowing momentum

WRB – An increase in range or momentum compared to recent bars.

- Terms are unimportant, each candle's message is.
- Do **NOT** assume the outcome of the current candle and or message.
- A candle is not complete until that time period ends.
- The combination of candle messages will speak to you.

Candlestick Analysis

COG REVERSAL BAR



Bullish Reversals

Bearish Reversals

Pristine Tip: While there are different variations, the message is *always the same ! A reversal in momentum **has** occurred!*

Candlestick Analysis

Narrow Range Bodies (NB)

- Bars in which the body of the candle is small relative to the overall length of the candle. They may have Tails on either side of the body.
- The appearance of tails shows uncertainty in the prevailing trend of bars.

Pristine Tip: While there are different variations, the message is always the same ! A slowing in momentum **has occurred!**



Candlestick Analysis

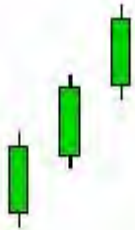
Narrowing Range Bars (NRB)

● A series of bars in which the difference between the highs and lows is narrowing.

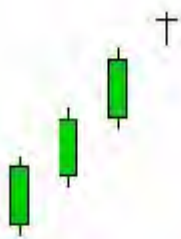
Pristine Tip: While there are different variations, the message is always the same ! A slowing in momentum *is occurring!*



Candlestick Analysis



Sell Setup
3 or more bars up
in downtrend.



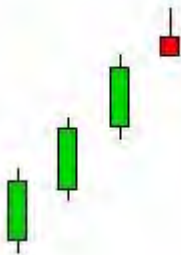
Bearish Doji Star
Gapped up, and opened and
closed at the same price.



Bearish Star
Gapped up, closing under open,
leaving a small real body.



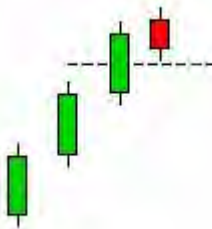
Bearish Hangman
Narrow range body with topping
tail, near higher end of prior bar.



Bearish Shooting Star
Narrow range body with
topping tail, near higher
end of prior bar.



Bearish Harami
Opened near the prior
bar's close, rose and fell
during the day, closing
with small real body.



Bearish Thrust
Gapped up and
closed down less than
half way into the
prior bar's range.

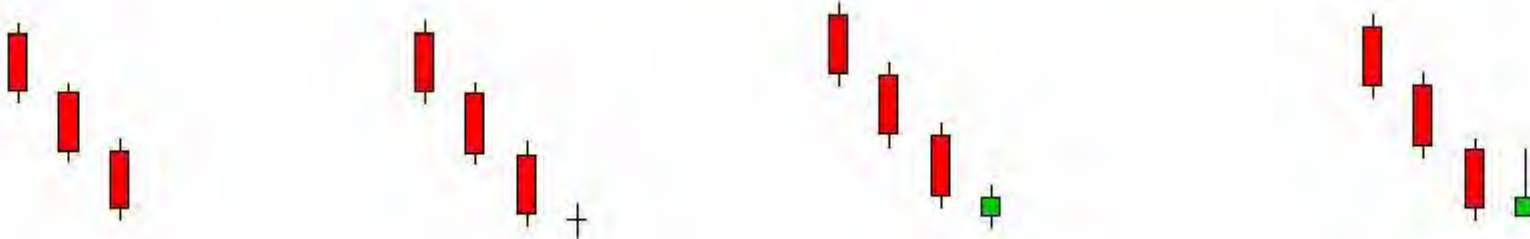


Bearish Piercing
Gapped up and
closed down over $\frac{1}{2}$
into the prior bar's
range.



Bearish Engulfing
Gapped up and fell
down to engulf the
entire prior bar's real
body.

Candlestick Analysis



<u>Buy Setup</u> 3 or more bars down in uptrend.	<u>Bullish Doji Star</u> Gapped down, and opened and closed at the same price.	<u>Bullish Star</u> Gapped down, closing over open, leaving a small real body.	<u>Bullish Inverted Hammer</u> Narrow range body with topping tail, near lower end of prior bar.
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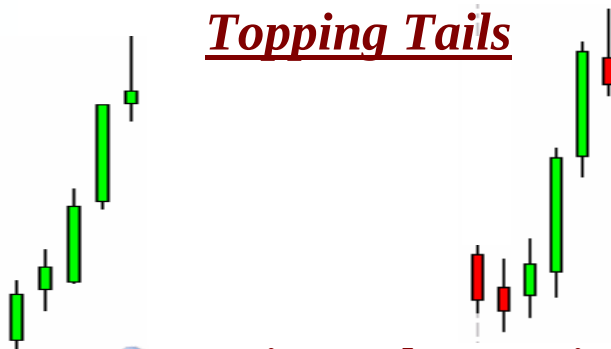
<u>Bullish Hammer</u> Narrow range body with bottom tail, near lower end of prior bar.	<u>Bullish Harami</u> Opened near the prior bar's close, fell and rose during the day, closing with small real body.	<u>Bullish Thrust</u> Gapped down and closed up less than half way into the prior bar's range.	<u>Bullish Piercing</u> Gapped down and closed over $\frac{1}{2}$ into the prior bar's range.	<u>Bullish Engulfing</u> Gapped down and rose up to engulf the entire prior bar's real body.
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Candlestick Analysis

Topping Tail Bars (TT)

● Normal or wide range bars in which prices had been higher, then supply forced prices below the mid-point of the bar's range.

Pristine Tip: While there are different variations, the message is always the same ! *Distribution has occurred, and overhead Supply has been increased!*

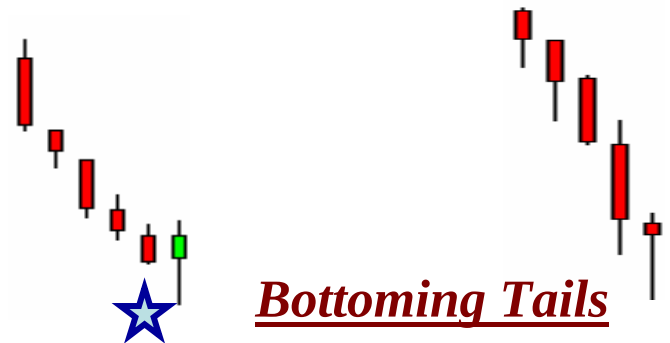


Topping Tails

Bottoming Tail Bars (BT)

● Normal or wide range bars in which prices had been lower, then demand forced prices higher above the mid-point of the bar's range.

Pristine Tip: While there are different variations, the message is always the same ! *Accumulation has occurred, and Supply overhead has been removed!*

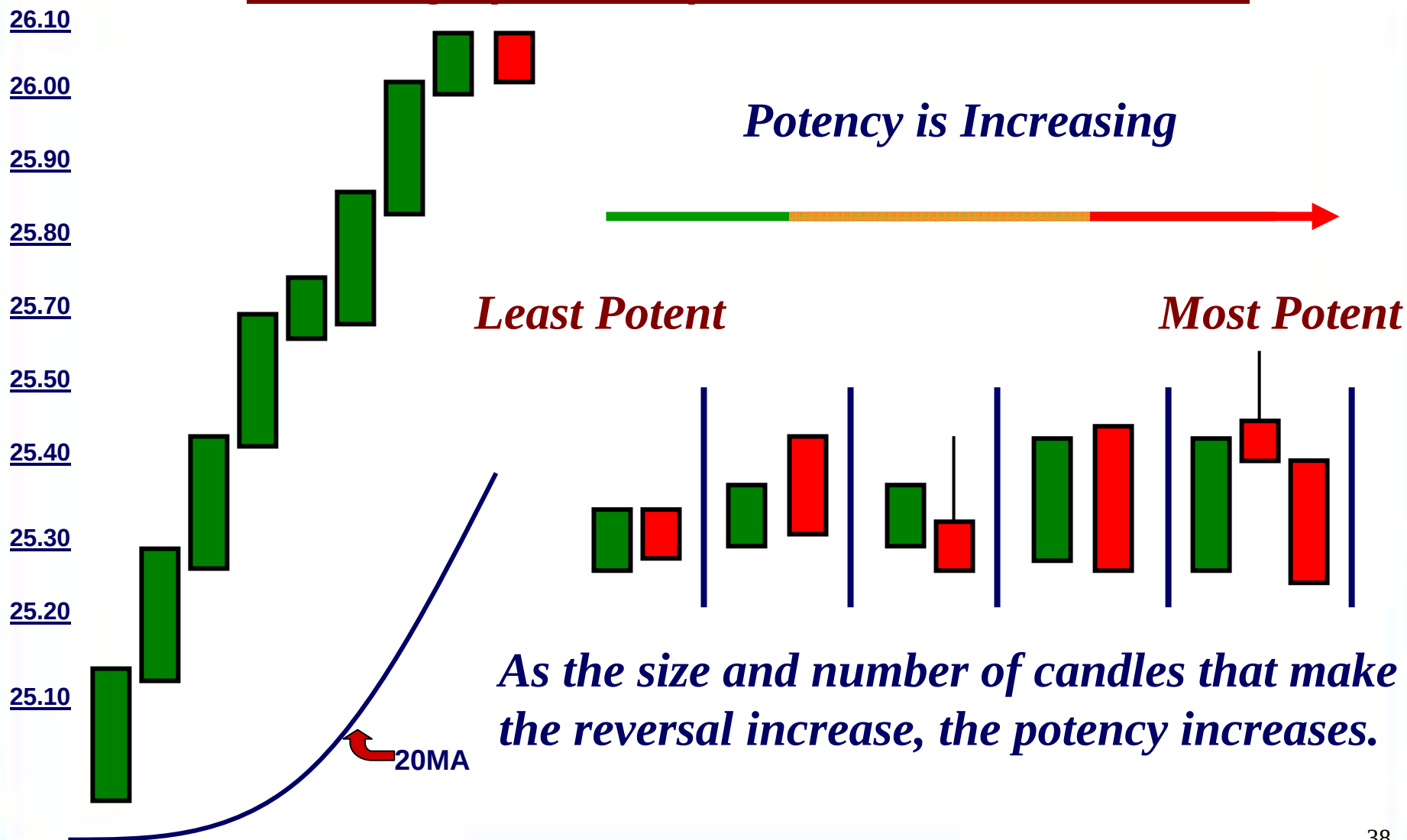


Bottoming Tails

● Topping and Bottoming Tails bars that are also a "Range Expansion" relative to prior bars have better odds of being an actual reversal point.

Candlestick Analysis

Has A Significant Shift In Momentum Occurred?



Candlestick Analysis

You now have an understanding of some of Pristine's terms and interpretation of candles.

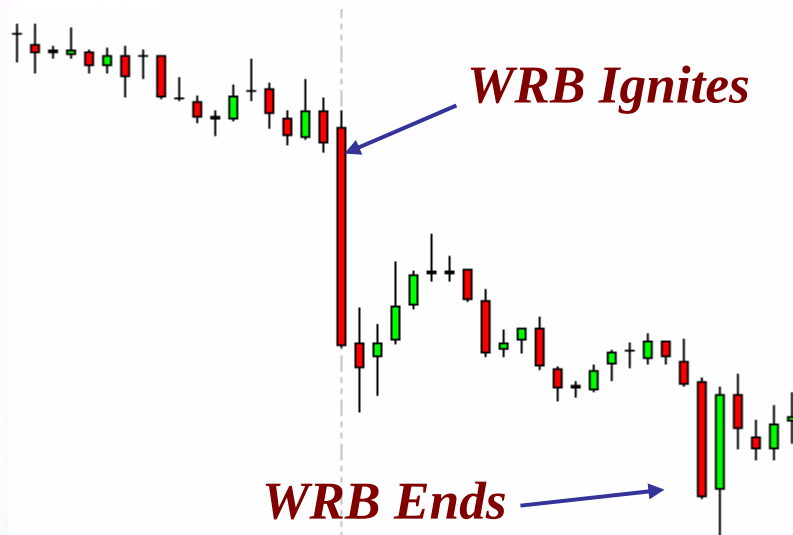


Now lets look at Wide Range Bars and Potent Reversals, and consider these candles' effects on emotions and begin to think in "Candle Language."

Candlestick Analysis

Wide Range Bar (WRB)

- A bar in which the candle's body is *relatively wide* compared to the most recent bars.
- A Wide Range Bar after a period of low volatility ignites momentum in that direction.
- A Wide Range Bar after an extended advance or decline typically happens near the end of a move. A **NB** or **COG** signals the turn.



Candlestick Analysis



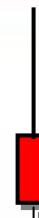
*Narrow
Range*



*Wide
Range*



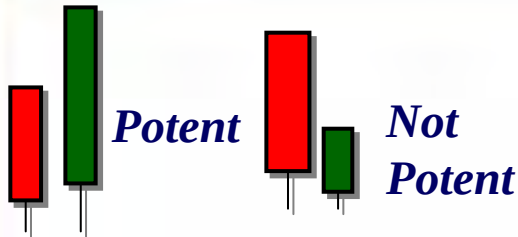
*Range
Expansion*



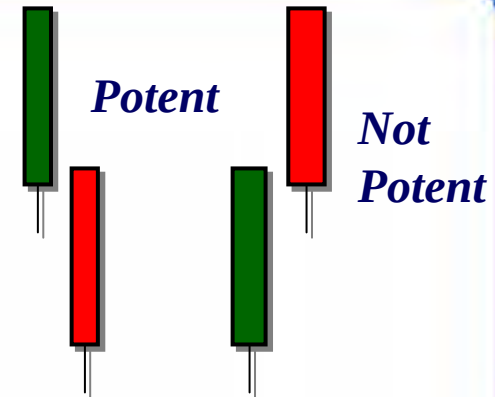
*Range
Expansion*

- A *Narrow Range* bar can indicate that momentum has slowed or that volatility is low.
- A *WRB* or *RE* bar displays commitment and emotion.
- A *Wide Range Bar (WRB)* is a *Range Expansion (RE)* by definition.
- A *Bottom Tail (BT)* or *Top Tail (TT)* may or may not be a *Range Expansion (RE)* bar.
- A *WRB* is an indication that momentum may soon slow or end an existing move.
- A *WRB Breakout* or *breakdown*, after a consolidation, ignites a move in that direction.

Candlestick Analysis



- *The larger the reversal bar is in relation to the prior bar, the more potent*
- *The level or depth of retracement into the prior candle increases potency*



- *Expanding range indicates Fear or Greed is increasing and becoming extreme*
- *Expanding range (**increased volatility**) increases the odds of a reversal*



Candlestick Analysis

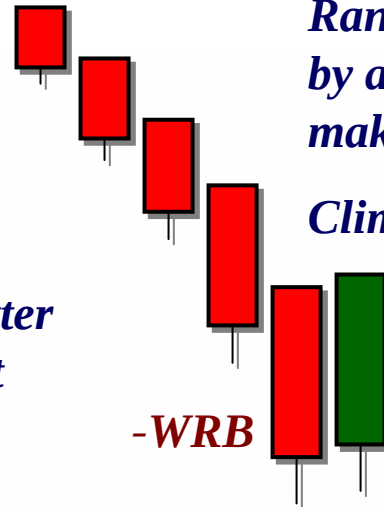


-WRB

This is not climactic and the reversal is not Potent

No fear, just slowing momentum

A retest of a this low has better odds of a larger retracement

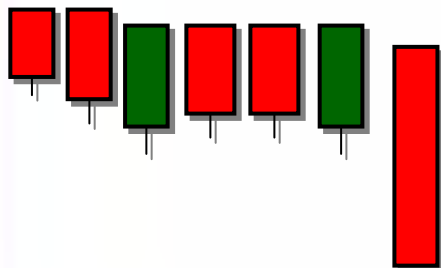


Range Expanded followed by a complete reversal, making it very potent!

Climactic and Potent

-WRB

+WRB



-WRB

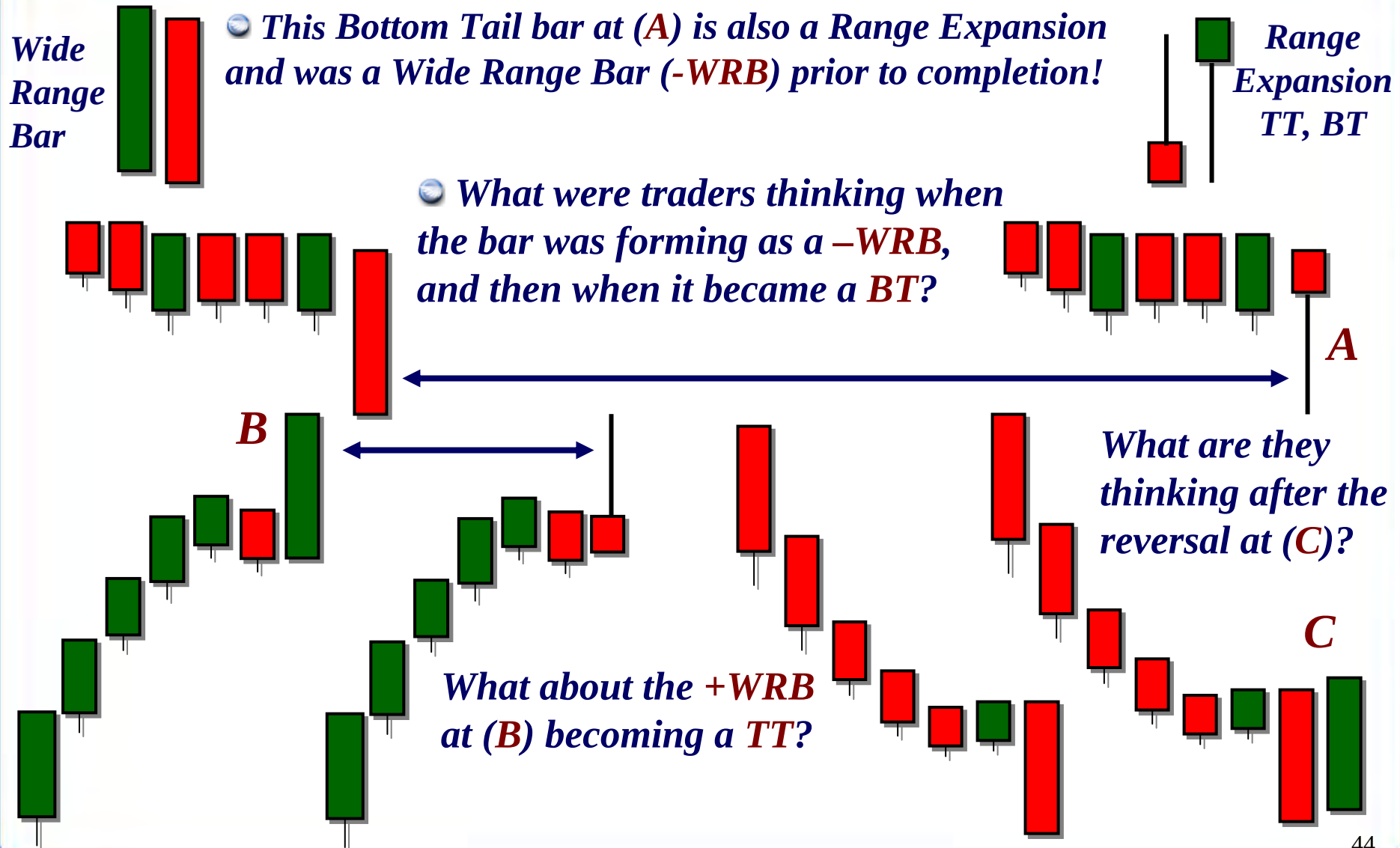
Range Expansion after low volatility ignites a move



-WRB

Not climactic, but Potent

Candlestick Analysis



Candlestick Analysis

Combine the Candle Messages

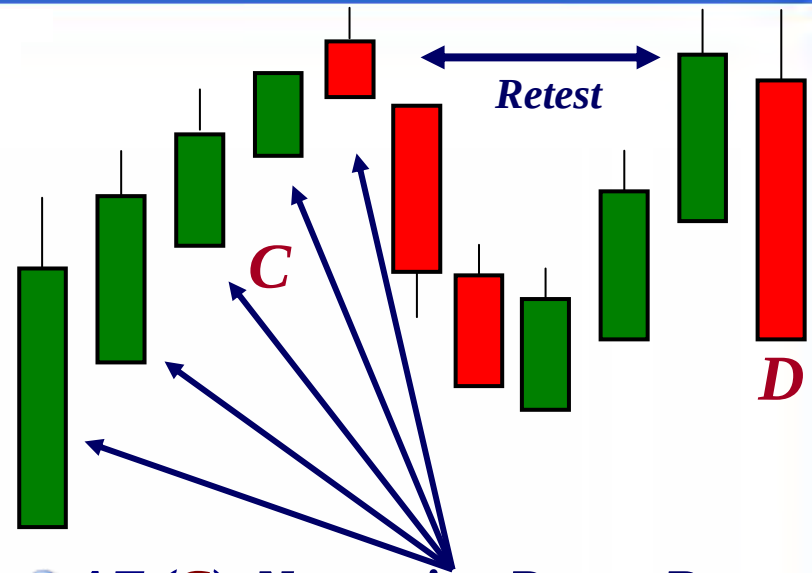
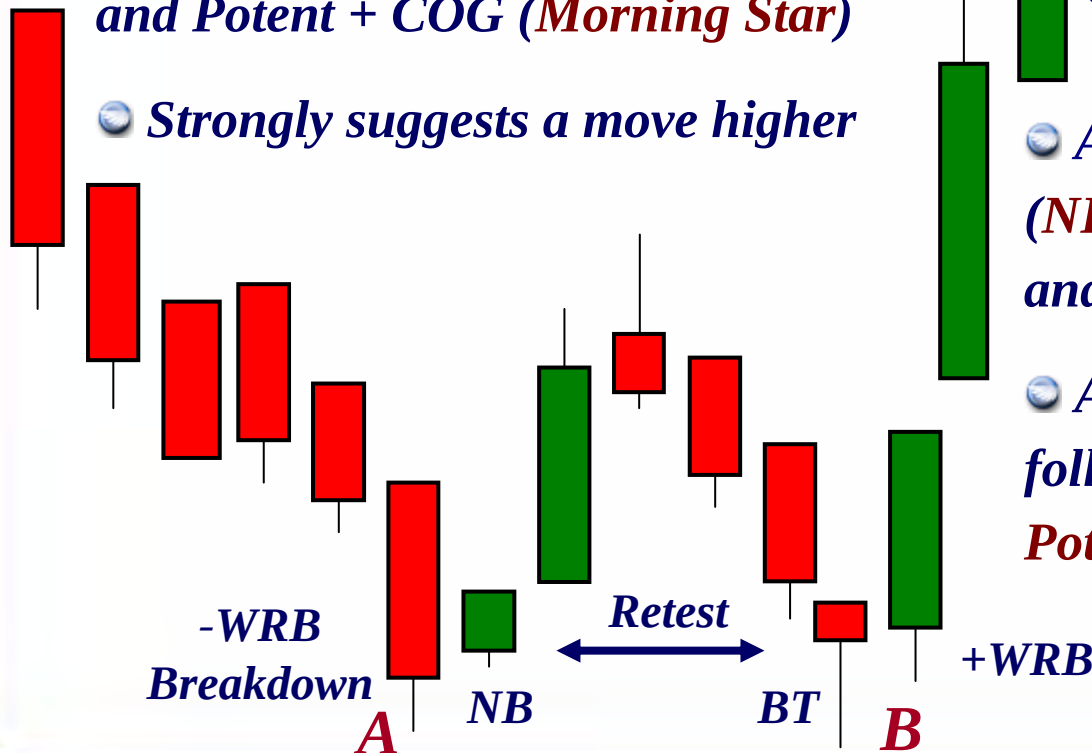
- *A signal bar, two-bar or three-bar candle pattern can point you to high probability reversal points, but*
- *A combination of these candles in the same area will give a stronger message of a reversal point.*
- *By interpreting the meaning of all recent candles combined, the odds of successfully locating a reversal increase.*

Candlestick Analysis

- At (A), An expanding range breakdown is followed by an inside narrow range bar (**Harami**)

- At (B) A retest of that “area” is followed by a Bottoming Tail (BT) and Potent + COG (**Morning Star**)

- Strongly suggests a move higher



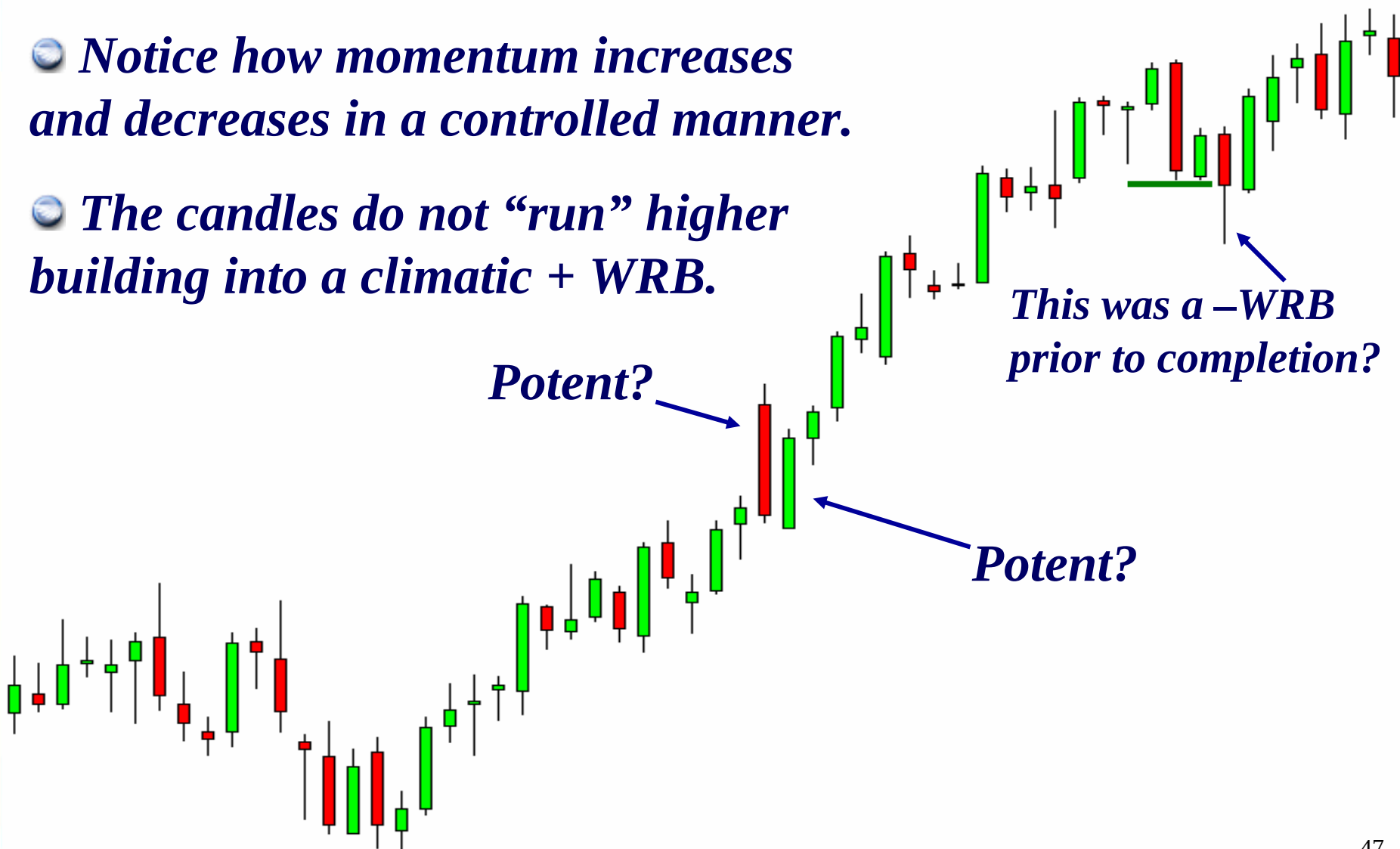
- AT (C), Narrowing Range Bars (**NR**) are followed by a gap down and move lower

- At (D), a retest of the area is followed by a minor gap lower and **Potent –COG** suggests a move lower

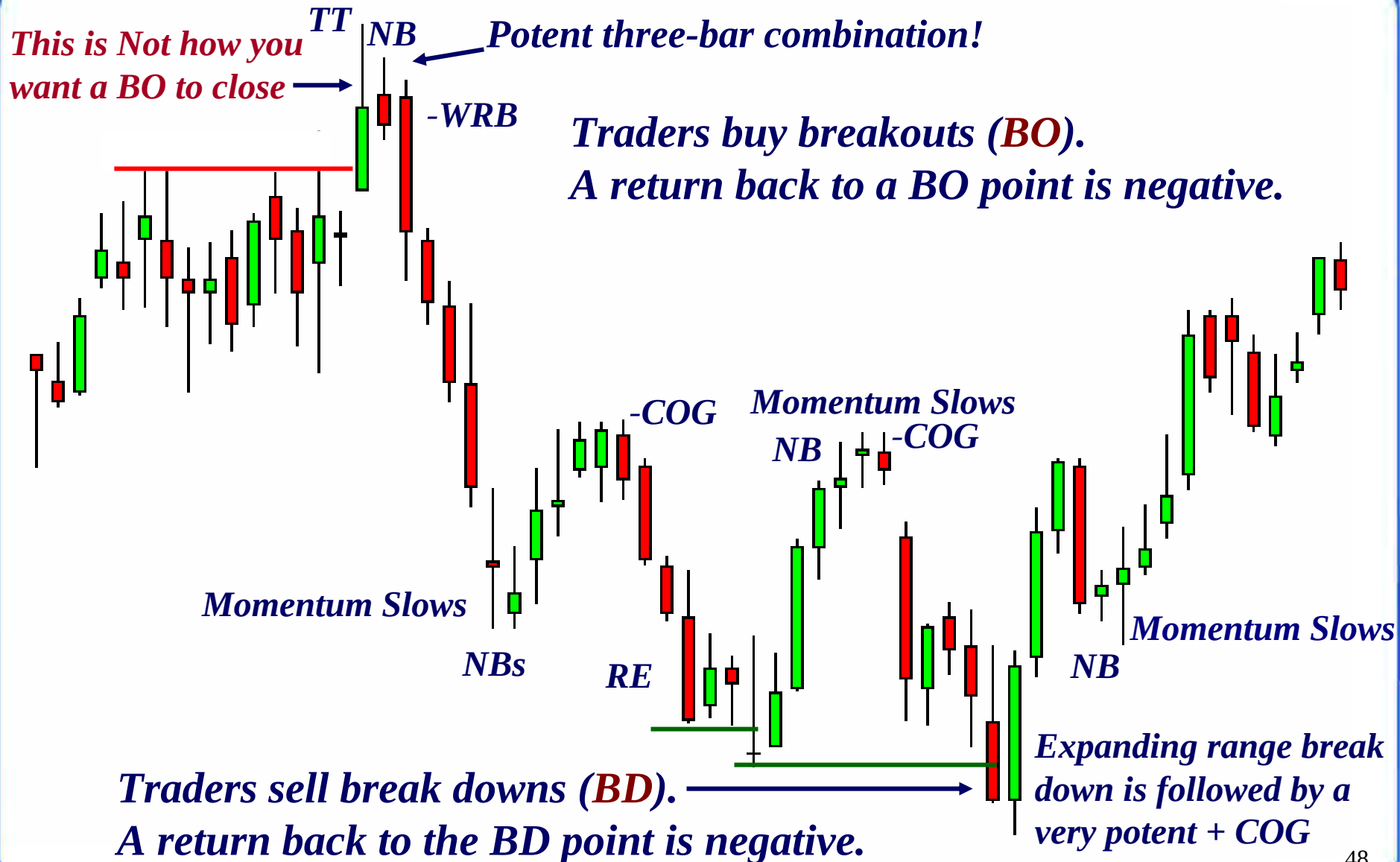
Candlestick Analysis

● Notice how momentum increases and decreases in a controlled manner.

● The candles do not “run” higher building into a climatic + WRB.



Candlestick Analysis



Candlestick Analysis

- As fear and greed increase, ranges expand

- As fear and greed decrease, ranges and/or bodies contract

- When and where this occurs is key

*Range and
bodies contract*

Range expands after contraction

Potent?

*Range expands after
multiple bars in one direction*

*Range and
bodies contract*



Candlestick Analysis

- *As you can see, it is possible to understand what candles are saying without knowing their various names and patterns.*
- *Remembering candle pattern names does not equate to using them successfully, but there is so much focus on them.*
- *If you remember the patterns, fine; but you now see there is a much easier, and better way.*
- *The use of candles can not guarantee a successful trade, but this deeper understanding gives much greater odds of success.*

Concluding Thoughts

- *At this point, you have a great start to using candles. Now, it's up to you to work with the material and make it yours.*
- *You should be able to analyze candle patterns objectively and make intelligent trading decisions.*
- *Defining an opportunity, where the odds are in your favor, then having the discipline to follow your trading and money management rules is all that you can do.*

In closing, we at Pristine wish you great success!